

# Financial Test Questions and Answers

## Insurance Questions

1. Which of the benefits are not found with single premium tax deferred annuities?

- a. Earnings can be withdrawn tax-free.
- b. Accumulated amounts avoid probate costs.
- c. Principal is guaranteed by the issuing insurance company.

a) Earnings within an annuity compound on a tax deferred basis. Income taxes are due when moneys are withdrawn from the contract.

2. Choosing a higher deductible on your homeowner's insurance policy will most likely result in premium payments that are:

- a. Higher
- b. Lower
- c. The same. Deductibles have no effect on premium levels.

b) Higher deductibles usually result in lower premiums. Insurance deductibles are one of the major factors used by insurance companies when setting premiums. When you select a higher deductible, you are responsible for costs up to that amount before the insurance policy starts to pay. Be sure to evaluate the relationship between deductibles and premium levels when you are considering a policy.

3. The annual premiums for a term life insurance policy are usually higher or lower for older individuals?

- a. Higher
- b. Lower

a) Higher. Term life insurance policies usually have lower premiums than whole life policies for younger individuals. However, there is no "cash build up" with term policies. If you are considering life insurance, be sure to understand all the conditions of the policies.

4. Umbrella insurance policies cover rain and flood damage.

- True
- False

False) Umbrella insurance policies provide additional liability coverage over the amount provided by auto and homeowner insurance policies. In this age of large damage awards and high medical costs, many buy additional protection with this type of policy. Usually an additional million dollars of coverage can be purchased for only a few hundred dollars per year.

5. You should always have collision coverage as part of your auto insurance.

- True
- False

False) Collision coverage pays for the cost of repairing your car after an accident. If your car has very little value, you should evaluate the cost of the collision portion of your policy versus any payoff you may receive if the car needs repair or is totaled. It may not make economic sense to keep the collision coverage. If your car is financed, check the terms of your loan as the lender may require it.